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USDOE FOR CAROLYN GAY AND RHEA DAVIS

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SUBJECT: US OIL COMPANIES ONE STEP CLOSER TO PRE-SALT OIL DISCOVERY
IN BRAZIL'S SANTOS BASIN

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¶1. U.S. oil companies Exxon and Hess, together with Brazilian partner Petrobras, have found evidence of oil in their highly anticipated pre-salt exploration block in Brazil's Santos Basin. Exxon, which operates the well, and Hess each own 40 percent of the concession while 20 percent is held by Petrobras.

¶2. The discovery was made at well 1ESS03SPS (test well that began drilling in October 2008) in the BM-S-22 block at a water depth of 2,223 meters (7,294 feet), the National Petroleum Agency released on January 20. The companies haven't determined if the find can be developed commercially but energy insiders expect the discovery in this block, called "Azulao", to be larger than the neighboring "Tupi" block which is currently the largest confirmed pre-salt find at 5-8 million barrels. The Azulao block lies at the apex of what geologists consider the largest structure of the pre-salt oil and gas reserves.

¶3. Unrelated to the Azulao announcement, Exxon CEO Rex Tillerson visited Brazil last week. His trip took place among speculation that, with almost \$37 billion of cash on hand, the company may be positioning for a major deal. Rumors circulating include a takeover of Shell, a merger with BG Group (which also holds a major stake in Brazil pre-salt), or a partnership with Petrobras to finance and develop pre-salt oil development in Brazil.

MARTINEZ